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R 212127Z APR 08
FM AMEMBASSY SANTIAGO
TO RUEHC/SECSTATE WASHDC 3155
INFO RUEHBR/AMEMBASSY BRASILIA 0282
RUEHBU/AMEMBASSY BUENOS AIRES 0900
RUEHLP/AMEMBASSY LA PAZ APR LIMA 5548

C O N F I D E N T I A L SANTIAGO 000370

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E.O. 12958: DECL: 04/15/2018

TAGS: PGOV CI

SUBJECT: ECONOMIC GROWTH AND SOCIAL AGENDA TO BE TWIN
LODESTARS IN BACHELET'S FINAL TWO YEARS

Classified By: E/Pol Counselor Juan A. Alsace for reasons 1.4 (b & d).

Summary

¶11. (C) Bachelet's domestic policy advisor told the Ambassador April 16 that the Bachelet administration in its last two years will focus on maintaining economic growth and completing its social agenda. Principal challenges to the latter will be in implementation of pension and education reform, ensuring guaranteed access to health care, and passing labor reform legislation. Chile's energy deficit will impact the former. The administration's loss of a working majority in Congress, while regrettable, will not severely hobble its legislative agenda. End summary.

Political Witchhunt

¶12. (C) The Ambassador, accompanied by E/Pol Counselor, called April 16 on Francisco Diaz, President Bachelet's domestic policy advisor. The television in Diaz's office was showing the impeachment proceedings against Education Minister Provoste, on allegations of misuse of public funds, and Diaz volunteered that Provoste (and Bachelet's governing Concertacion coalition) was likely to lose the vote scheduled for later on that afternoon (she did - septel). Diaz noted that "four of the five" charges against Provoste were "garbage" but allowed that one - for failing to exercise proper oversight of public funds - was at least debatable. And while Diaz made clear he believed even that charge was without merit, he lamented more the "politically motivated" nature of the accusations, worrying that it could lead to tit for tat retaliation, "should the opposition Alianza win the presidency in 2009, while the Congress remained in Concertacion hands." The country has more important matters to attend.

Four Priorities

¶13. (SBU) The Ambassador noted the Secretary had found her meeting in March with President Bachelet very useful; the conversation had focused to a considerable degree on the President's domestic priorities and social cohesion agenda. What would be the administration focus in its remaining two years? Diaz said that completing work on the social agenda, along with maintaining solid economic growth ("at least five percent"), would be the two principal objectives. Chile's energy deficit could impact heavily on its ability to grow robustly, however. The Ambassador observed that he had

discussed with all his GOC contacts USG willingness to cooperate with Chile in areas such as energy efficiency and diversification. The U.S. hoped to share its technology and expertise with Chile in areas such as geothermal and solar energy, a prospect Diaz welcomed.

¶4. (SBU) Diaz continued that the administration would focus on four social agenda priorities. The first two would involve implementation of pension and education reforms, legislation already approved by the Congress. Next would be passing legislation guaranteeing adequate and timely health care coverage to the poorest Chileans. The fourth would be reform of labor laws, improving flexibility of rigid laws that undermine Chile's competitiveness. E/Pol Counselor wondered if Concertacion's loss of a working majority in Congress - as evidenced by the impending Provoste vote - foreshadowed difficulties in passing and implementing legislation on its social priorities. Diaz noted that the Concertacion had only had a majority in two (2006-2008) of its eighteen years in power. It was used to seeking consensus with the opposition on key issues and would continue to do so.

¶5. (C) Comment: Diaz came across as quite sanguine about the possibility of cooperation with the opposition. He may be right - opposition figures often tell us their greatest challenge is convincing the public there is much space between them and Concertacion on major issues such as education or pension reform. Nor do they want to appear overly obstructionist on issues affecting the public weal. Still, the political debate here has become increasingly divisive and the Provoste affair may have the opposition and several disgruntled Concertacion renegades smelling blood, with less willingness to go along with Concertacion as the country moves towards municipal elections later this year.

End comment.
SIMONS